

FISCAL NOTE

Bill #: HB0595 **Title:** Allow individual income tax credit on repayment of certain student loans

Primary Sponsor: Brueggeman, J **Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
Expenditures:		
General Fund	\$24,888	\$25,488
Revenue:		
General Fund	(\$1,100,000)	(\$2,200,000)
Net Impact on General Fund Balance:	(\$1,124,888)	(\$2,225,488)

<input type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input checked="" type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

- Beginning in tax year 2004, this bill would allow persons who received a degree from a Montana institution of higher education after December 31, 2002, and who have more than a certain amount of student loan debt, to claim a non-refundable credit against personal income tax in their year of graduation and up to nine succeeding years until the student loans are repaid.
 - A person receiving an associate or bachelor's degree and having at least \$5,000 in student loans would be able to claim a credit of \$500.
 - A person receiving a masters or doctoral degree and having at least \$10,000 in student loans would be able to claim a credit of \$1,000.
- The credit would first be claimed by 2003 graduates on their returns for tax year 2003 filed in 2004. Credits totaling \$1.1 million would be claimed, reducing general fund revenue by \$1.1 million in fiscal 2004.
- Taxpayers who claimed the credit on their 2003 tax returns would claim the same amount on their 2004 returns, and 2004 graduates would claim \$1.1 million in credits on their 2004 tax returns. This would reduce general fund revenue by \$2.2 million in fiscal 2005.

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(continued)

4. The Department of Revenue would incur minimal costs in fiscal 2004 to modify income tax processing software to add a new credit.

Office of Commissioner of Higher Education

5. The Montana Guaranteed Student Loan Program estimates that to track the borrowers eligible to receive the tax credit of this bill would require one full-time grade 10 FTE.

FISCAL IMPACT:

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
<u>Office of Commissioner of Higher Education</u>		
FTE	1.00	1.00
<u>Expenditures:</u>		
Personal Services	\$24,888	\$25,488
<u>Funding of Expenditures:</u>		
General Fund (01)	\$24,888	\$25,488
 <u>Department of Revenue</u>		
<u>Revenues:</u>		
General Fund (01)	\$(1,100,000)	\$(2,200,000)
 <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$(1,124,888)	\$(2,225,488)

LONG-RANGE IMPACTS:

Each year, new graduates would be allowed to claim the credit while persons who received a degree in the last ten years and have not paid off their student loans would continue to claim the credit. Credits would increase by approximately \$1.1 million each year through fiscal 2013. Credits in fiscal 2013 and following years would be approximately \$11 million.

TECHNICAL NOTES:

1. Subsection 2(4) requires the taxpayer to provide documentation of the amount of the student loan repaid in any year the credit is claimed. It is not clear to whom this information is to be provided, and the purpose for providing it is not clear.
2. Subsection 2(6) provides that a taxpayer who claims a credit under subsection 2(1) for undergraduate degrees *and* under subsection 2(2) for graduate degrees may not claim the credit for student loans related to another degree. As written, this would allow a taxpayer to claim credits related to one undergraduate and one graduate degree, or any number of undergraduate degrees, or any number of graduate degrees. If the intent is to allow a taxpayer to claim the credit for one undergraduate or one graduate degree, the phrase “[subsections 1 *and* 2]” should be changed to “[subsections 1 *or* 2].”